ECONOMIC UPDATE *NOVEMBER 2021*

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Stocks resumed their upward trajectory to reach new highs in October. Large cap stocks in the S&P 500 index were up 7.0% for the month, bringing their year-to-date gains to 24.0%. Small cap stocks in the Russell 2000 were also up 4.3% for the month extending their year-to-date gains to 17.2%. International stocks in the MSCI EAFE index also added to gains with a 2.5% increase for the month and 11.0% year-to-date. With a gain of 1.0% in October, emerging market stocks still had a -0.3% return for the year so far. Yields were basically unchanged for the month; the Barclays US Aggregate Bond Index earned 0.0% for the month leaving its year-to-date return at -1.6%.

The COVID numbers seem to be stabilizing - if not falling - after an initial concern that the Delta variant would lead to a resurgence of the virus and more disruptions. Now, it seems to be mostly a labor shortage and supply constraints that are hurting economic growth. Economic growth is estimated to have slowed to only 2.0% in the third quarter. This is the slowest growth of the recovery and well below the 6.7% of second quarter. The demand for goods is still healthy but stores are struggling to stock their shelves; many products and raw materials are stuck in shipping containers waiting to be unloaded and delivered but labor shortages are resulting in delays. We've all heard the reports that we need to do our Christmas shopping now because stores might not have what we want as it gets closer to Christmas.

Apple has estimated that supply constraints of chips and manufacturing delays reduced sales by $6 billion during the third quarter. This reduction resulted in Apple reporting revenue below analyst expectations. However, quarterly revenue was still up 29% year-over-year, and they were able to still meet earnings expectations. Third quarter earnings reports have been mostly positive overall. Of the companies in the S&P 500 that have reported so far, earnings are up 37.6% and revenues are up 15.3% compared to third quarter last year. Over 82% exceeded the earnings estimates of analysts and 74% beat revenue estimates. For the full year, total S&P 500 earnings are expected to be 44% higher than 2020.

Supplemental unemployment benefits expired in September, but the labor shortage problems are continuing. Workers left the workforce and are not yet returning. Some retired when the pandemic hit and aren't expected to return. Others may have savings that they are using to stay home a little longer. Many companies have been trying to lure workers with increased wages. Starbucks has said they will implement a nationwide minimum wage of $15 an hour and in some areas it may be $23. Amazon has raised its average starting wage to more than $18 an hour.

Inflation and taxes are also creating some uncertainty. Headline inflation rose at a 4.4% annual rate in September which is the highest annual rate in 30 years. The Fed continues to believe that most of the inflation is transitory as components like energy are not expected to continue to increase at their current rates. Energy demand and therefore prices were so low last year during the pandemic, this year they are high in comparison but are unlikely to continue to rise at the same pace. Time will tell and some believe inflation will be longer lasting than the Fed anticipates due to rising wages and a shortage of goods. The Fed has reiterated it doesn't want to raise short-term rates in 2021, but we will see their bond purchases begin to taper later this month.

Congress continues to negotiate the passage of the infrastructure plan, stimulus package and tax changes. The spending may not spur the economy as much as other recent stimulus spending as it would be spread out over 5 to 10 years rather than immediate. However, the tax increases would be immediate which could cause economic growth to be muted over the next decade.

As always, we are available to discuss any questions or concerns you may have. Please do not hesitate to contact us.

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